

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name North Oakland Transportation Authority	County Oakland
Fiscal Year End December 31, 2005	Opinion Date 5/11/06	Date Audit Report Submitted to State June 30, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES
☒ NO
☐

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☒ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Rehmann Robson		Telephone Number 248-952-5000		
Street Address 5750 New King Street, Suite 200		City Troy	State MI	Zip 48098
Authorizing CPA Signature Thomas E. Darling, CPA <small>Digitally signed by Thomas E. Darling, CPA DN: cn=Thomas E. Darling, CPA, c=US, o=Rehmann Robson, email=tdarling@rehmann.com Date: 2006.05.09 13:00:00 -0400</small>		Printed Name Thomas E. Darling		License Number A246550

**NORTH OAKLAND
TRANSPORTATION AUTHORITY
OAKLAND COUNTY, MICHIGAN**

ANNUAL FINANCIAL REPORT

For the Year Ended December 31, 2005

**NORTH OAKLAND
TRANSPORTATION AUTHORITY
OAKLAND COUNTY, MICHIGAN**

**Annual Financial Report
For the Year Ended December 31, 2005**

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REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

May 11, 2006

Board of Trustees
North Oakland Transportation Authority
Oakland County, Michigan

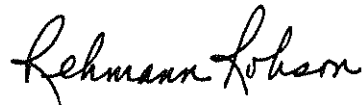
We have audited the accompanying financial statements of the governmental activities and the major fund of the **North Oakland Transportation Authority, (the "Authority")**, as of and for the year ended December 31, 2005, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the **North Oakland Transportation Authority**, as of December 31, 2005, and the respective changes in financial position, thereof and the budgetary comparison of the General Fund for the year then ended in conformity with accounting principles general accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 11, 2006, on our consideration of the **Authority's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis listed in the table of contents on pages 3-10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

***Management's Discussion
and Analysis***

Management's Discussion and Analysis

As management of the North Oakland Transportation Authority, we offer the readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the North Oakland Transportation Authority for the year ended December 31, 2005.

Financial Highlights

- The assets of the Authority exceeded its liabilities at the end of 2005 by \$632,207 (net assets). Of this amount, \$341,920 (unrestricted net assets) may be used to meet the Authority's ongoing obligations to provide transportation services to the residents of northern Oakland County.
- The Authority's total net assets increased by \$373,520.
- Two grants increased during 2005, the State Match Job Access Reverse Commute (JARC) Grant increased from \$74,345 to \$148,677 and the Community of Mental Health Grant received through Training and Treatment Innovations increased from \$150,000 to \$200,000. Both of these grants are used for operating purposes and allowed an expansion of service.
- The fleet of vehicles increased from 8 to 15 and we retired 2 leaving a fleet of 13 during 2005. Two of the vehicles came from two hospitals which made donations for vehicles this year. The value of the donated vehicles totaled \$54,540. In addition, NOTA received the other 5 from federal grants. This expanded fleet also increased fuel, maintenance and salary costs for the drivers which were covered by the additional grant dollars.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Authority's finances in a manner similar to private-sector business.

The *statement of net assets* presents information on all of the Authority's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The *statement of activities* presents information showing how the Authority's net assets changed during the most recent year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will result only in cash flows in future years (i.e., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Authority that are principally supported by government revenues through membership fees and operating grants. The sole governmental activity of the Authority consists of providing regional transportation services in northern Oakland County. The Authority is a single purpose governmental agency.

The government-wide financial statements can be found in the Statement of Net Assets and Statement of Activities columns on pages 11 and 13, respectively, of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Authority maintains only one fund, the General Fund, which is a governmental fund type.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Authority maintains one individual governmental fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General fund, which is considered to be a major fund.

The Authority adopts an annual appropriated budget for its General fund. A budgetary comparison statement has been provided herein to demonstrate compliance with the General Fund budget.

The basic governmental funds financial statements can be found in the column labeled "General Fund" on pages 11 and 13, respectively, of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found as labeled in the table of contents of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the North Oakland Transportation Authority, assets exceeded liabilities by \$632,207 at the close of the year.

The largest portion of the Authority's net assets (54%) is unrestricted net assets that can be used to provide transportation services during subsequent fiscal years. In addition the Authority's net assets (46%) reflect its investment in capital assets representing vehicles and equipment. All of the capital assets were acquired through grants and donations, therefore, no debt is outstanding on these items. The Authority uses these capital assets to provide transportation services to residents; consequently, these assets are *not* available for future spending.

North Oakland Transportation Authority's Net Assets

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
Current and other assets	\$ 357,934	\$ 196,056
Capital assets, net	290,287	81,565
Total assets	648,221	277,621
Current liabilities	16,014	18,934
Net assets:		
Invested in capital assets, net of related debt	290,287	81,565
Unrestricted	341,920	177,122
Total net assets	<u>\$ 632,207</u>	<u>\$ 258,687</u>

No portion of the Authority's net assets represent resources that are subject to external restrictions on how they may be used. The *unrestricted net assets* may be used to meet the Authority's services to the seniors and disabled residents.

At the end of the current year, the Authority is able to report a positive balance in net assets.

The Authority's net assets increased by \$373,520 during the current year. Nearly all of this increase represents additional revenues generated from operating grants which gives the Authority the flexibility to increase the service fleet and help pay for the increase in fuel and insurance.

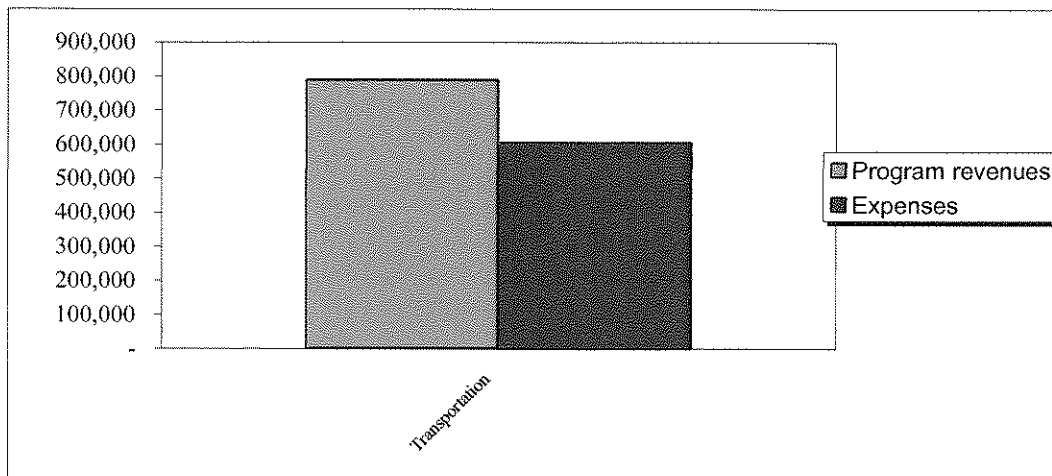
**North Oakland Transportation Authority
Changes in Net Assets**

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
Revenue:		
Program revenues:		
Contributions	\$ 9,173	\$ 24,047
Operating grants	551,814	414,703
Capital grants	226,025	-
In-kind rent	3,078	3,378
Total program revenues	<u>790,090</u>	<u>442,128</u>
General revenues:		
Government revenues	185,624	181,276
Interest income	728	398
Miscellaneous income	2,468	175
Total general revenues	<u>188,820</u>	<u>181,849</u>
Expenses:		
Transportation operations	<u>605,390</u>	<u>474,829</u>
Increase in net assets	373,520	149,148
Net assets-beginning	<u>258,687</u>	<u>109,538</u>
Net assets-ending	<u><u>\$ 632,207</u></u>	<u><u>\$ 258,687</u></u>

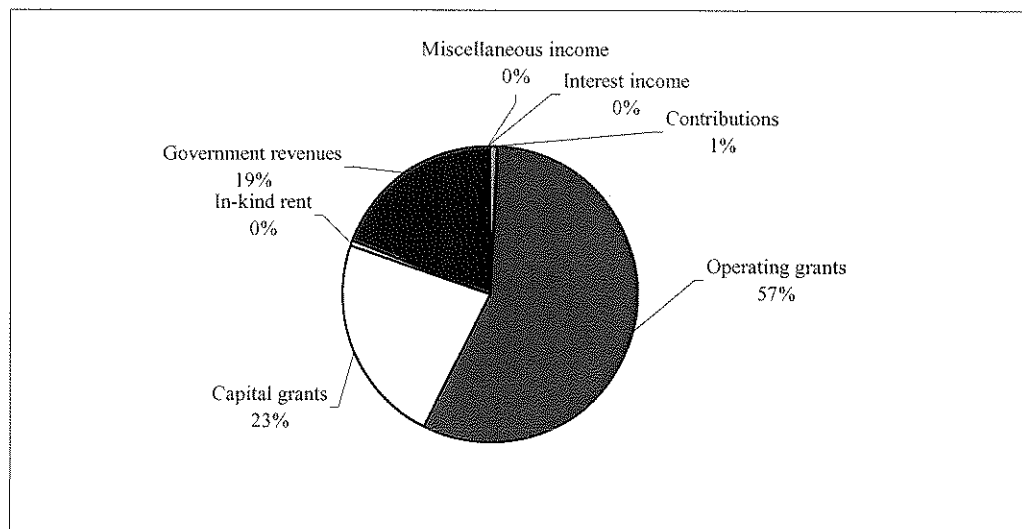
Governmental activities. The Authority's Governmental activities increased the Authority's net assets by \$373,520. Key elements of this increase are as follows:

- The State JARC matching operating grant increased \$74,332 over 2004 which helped cover salaries of drivers, as well as maintenance, insurance and fuel on the vehicles.
- An additional \$50,000 was received from a health agency to cover expanded service hours and other operational costs.
- The grants received from the hospitals for vehicles totaled \$54,540.
- NOTA expended \$131,220 of a reimbursable capital grant in 2005.
- A leased vehicle with a value of \$62,000 was received through a 5310 Federal Grant.

Expenses and Program Revenues – Governmental Activities



Revenues by Source – Governmental Activities



Financial Analysis of the Government's Funds

As noted earlier, the Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Authority's *governmental funds* is to provide information on near-term inflows, outflows and balances of *spendable* resources. Such information is useful in assessing the Authority's financing requirements. In particular, *unreserved fund balance* may

serve as a useful measure of a government's net resources available for spending at the end of the year.

As of the end of the current year, the Authority's governmental fund reported an ending fund balance of \$341,920, an increase of \$164,798 compared with 2004. Most of this increase can be attributed to the new funding received from the Oakland Community Mental Health Authority as well as the additional grant revenue received.

The general fund is the operating fund of the Authority. At the end of the current year, unreserved fund balance of the general fund was \$325,416, while total fund balance was \$341,920. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents 40.0% of total general fund expenditures.

General Fund Budgetary Highlights

Over the course of the year, the Authority's Board of Trustees revised the Authority budget several times. These budget amendments fall into three categories:

- Increases in appropriations to prevent overruns for capital or operating expenditures.
- Amendments made shortly after the beginning of the year to reflect carryover capital appropriations.
- Amendments made to increase revenue/expenditure budgets for events that were not fully anticipated when the budget was compiled.

Differences between the original budget and the final amended budget were generally minor with the following exceptions:

- The Grant Revenues were higher than originally budgeted due to two grants increasing during 2005: the Job Access Reverse Commute State Grant match increased from \$74,345 to \$148,677 and Community of Mental Health Grant increased from \$150,000 to \$200,000.
- Salaries and Wages, fuel and maintenance costs were increased due to expanded service hours for weekends and one evening and the increase in fleet of vehicles.
- Capital Outlay was increased due to the additions to the fleet of vehicles including two vehicles donated from two different hospitals.

During the year, general fund revenues and expenditures were in excess of budgeted amounts by \$137,516 and \$49,883, respectively. This was primarily due to the increase in expenditure driven grants.

Capital Asset and Debt Administration

Capital assets. The Authority's investment in capital assets for its governmental-type activities as of December 31, 2005 amounted to \$290,287 (net of accumulated depreciation). This investment in capital assets includes equipment and vehicles. The total increase in the Authority's investment in capital assets (net of depreciation) for the year was \$208,722.

Major capital asset additions during the current year included the following:

- Two new Ford E-350 Mini Buses at a cost of \$110,000 acquired with grant dollars, and one bus donated at a value of \$62,000
- Four Ford E-350 Vans at a cost of approximately \$108,000 acquired with grant dollars

Depreciation expense of \$73,456 was reported in transportation operations for the governmental activities.

North Oakland Transportation Authority's Capital Assets (Net of Depreciation)

	Governmental Activities
Equipment	4,144
Vehicles	286,143
Total	<u>\$ 290,287</u>

Additional information on the Authority's capital assets can be found in the notes to the financial statements as listed in the table of contents.

Economic Factors and Next Year's Budget and Rates

The following factors guided the preparation of the Authority's 2006 budget:

- Reflects the Capital Grant for vehicles and office furniture
- Budget has been adjusted for salaries and wages and fuel costs increases.

Requests for Information

This financial report is designed to provide a general overview of the North Oakland Transportation Authority's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director, North Oakland Transportation Authority, 720 James Hunt Drive, Oxford, Michigan, 48371.

* * * * *

*Basic
Financial Statements*

NORTH OAKLAND TRANSPORTATION AUTHORITY

STATEMENT OF NET ASSETS AND GOVERNMENTAL FUND BALANCE SHEET

December 31, 2005

ASSETS			
	General Fund	Adjustments	Statement of Net Assets
Cash	\$ 165,108	\$ -	\$ 165,108
Accounts receivable	176,322	-	176,322
Prepaid expenses	16,504	-	16,504
Equipment, at cost, less accumulated depreciation of \$163,270	-	290,287	290,287
Total assets	<u>\$ 357,934</u>	<u>290,287</u>	<u>648,221</u>
LIABILITIES			
Accounts payable	\$ 8,074	-	8,074
Accrued salaries	6,200	-	6,200
Deferred/unearned revenue	1,740	-	1,740
Total liabilities	<u>16,014</u>	<u>-</u>	<u>16,014</u>
FUND BALANCE/NET ASSETS			
Fund balance			
Reserved for prepaids	16,504	(16,504)	-
Unreserved, undesignated	325,416	(325,416)	-
Total fund balance	<u>341,920</u>	<u>(341,920)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 357,934</u>		
Net assets			
Invested in capital assets		290,287	290,287
Unrestricted		341,920	341,920
Total net assets		<u>\$ 632,207</u>	<u>\$ 632,207</u>

The accompanying notes are an integral part of these financial statements.

**NORTH OAKLAND TRANSPORTATION
AUTHORITY**

**RECONCILIATION OF FUND BALANCE ON THE BALANCE SHEET
FOR THE GOVERNMENTAL FUND TO NET ASSETS OF
GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS**

December 31, 2005

Fund balance - governmental fund	\$ 341,920
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: capital assets	453,557
Deduct: accumulated depreciation	<u>(163,270)</u>

Net assets of governmental activities	<u><u>\$ 632,207</u></u>
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The accompanying notes are an integral part of these financial statements.

NORTH OAKLAND TRANSPORTATION AUTHORITY

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

Year Ended December 31, 2005

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
Expenditures/expenses			
Transportation operations	\$ 531,934	\$ 73,456	\$ 605,390
Capital outlay	282,178	(282,178)	-
Total expenditures/expenses	<u>814,112</u>	<u>(208,722)</u>	<u>605,390</u>
Program revenues			
Contributions	9,173	-	9,173
Operating grants	551,814	-	551,814
Capital grants	226,025	-	226,025
In-kind rent	3,078	-	3,078
Total program revenues	<u>790,090</u>	<u>-</u>	<u>790,090</u>
Net program revenue			<u>(184,700)</u>
General revenues			
Government revenues	185,624	-	185,624
Interest income	728	-	728
Miscellaneous income	2,468	-	2,468
Total general revenues	<u>188,820</u>	<u>-</u>	<u>188,820</u>
Excess of revenues over expenditures	164,798	(164,798)	-
Change in net assets	-	373,520	373,520
Fund balance/net assets			
Beginning of year	177,122	81,565	258,687
End of year	<u>\$ 341,920</u>	<u>\$ 290,287</u>	<u>\$ 632,207</u>

The accompanying notes are an integral part of these financial statements.

**NORTH OAKLAND TRANSPORTATION
AUTHORITY**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND
TO THE STATEMENT OF ACTIVITIES**

Year Ended December 31, 2005

Net change in fund balance - governmental fund	\$ 164,798
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay	282,178
Deduct: depreciation expense	<u>(73,456)</u>

Change in net assets of governmental activities	<u><u>\$ 373,520</u></u>
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The accompanying notes are an integral part of these financial statements.

NORTH OAKLAND TRANSPORTATION AUTHORITY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

Year Ended December 31, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget- Positive (Negative)
REVENUES				
Government revenues	\$ 181,618	\$ 181,618	\$ 185,624	\$ 4,006
Operating grants	308,257	458,651	551,814	93,163
Capital grants	80,000	185,630	226,025	40,395
Donations	25,000	7,000	9,173	2,173
In-kind services	7,294	3,694	3,078	(616)
Interest	500	500	728	228
Miscellaneous	-	4,301	2,468	(1,833)
Total revenues	602,669	841,394	978,910	137,516
EXPENDITURES				
Salaries and wages	233,000	245,000	261,685	(16,685)
Payroll taxes	22,400	34,257	16,630	17,627
Contracted services	40,000	42,500	49,433	(6,933)
Fuel costs	30,000	52,000	51,328	672
Vehicle maintenance and repairs	29,000	33,000	33,116	(116)
Rent	3,600	4,000	3,078	922
Insurance	62,397	62,397	73,547	(11,150)
Telephone	8,500	9,500	9,221	279
Office supplies and expense	3,000	2,850	3,890	(1,040)
Professional development	1,750	2,000	655	1,345
Professional fees	25,500	16,870	16,081	789
Advertising	250	250	46	204
Uniforms	-	-	724	(724)
Feasibility study	20,000	-	12,500	(12,500)
Capital outlay	21,000	259,605	282,178	(22,573)
Total expenditures	500,397	764,229	814,112	(49,883)
Net change in fund balance	102,272	77,165	164,798	87,633
Fund balance, beginning of year	177,122	177,122	177,122	-
Fund balance, end of year	\$ 279,394	\$ 254,287	\$ 341,920	\$ 87,633

The accompanying notes are an integral part of these financial statements.

NORTH OAKLAND TRANSPORTATION AUTHORITY OXFORD, MICHIGAN

Notes to the Financial Statements

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The North Oakland Transportation Authority (“the Authority”) was formed to provide public transportation for residents of northern Oakland County, Michigan. It was created under an agreement between the governmental entities of Addison Township, Orion Township, Oxford Township, Village of Lake Orion, Village of Leonard, and Village of Oxford, each represented on the governing council of the Organization.

The Authority has determined that no entities should be consolidated into its basic financial statements as component units. The criteria for including a component unit include entities for which the government is considered to be financially accountable. Therefore, the reporting entity consists only of the primary government.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Membership fees and other items not properly included among program revenues are reported instead a general revenues.

Separate financial statements are provided for the Authority’s governmental fund. The governmental fund is a separate column in the financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility

NORTH OAKLAND TRANSPORTATION AUTHORITY

OXFORD, MICHIGAN

Notes to the Financial Statements

requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement* focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, or within one year for reimbursement-based grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Membership fees and other intergovernmental revenues and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Authority.

The Authority reports the following major governmental fund:

The *General Fund* is the Authority's operating fund for transportation services to local communities.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Authority has elected not to follow subsequent private-sector guidance.

Amounts reported as *program revenues* include contributions and grant reimbursements. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include membership fees to the member communities.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

NORTH OAKLAND TRANSPORTATION AUTHORITY OXFORD, MICHIGAN

Notes to the Financial Statements

D. Assets, Liabilities, and Net Assets

1. Deposits and investments

The Authority's cash and cash equivalents are considered to be cash on hand and demand deposits.

State statutes authorize the Authority to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury and agencies, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

Investments are reported at fair value. The Authority did not have any investments as of December 31, 2005.

2. Receivables

All accounts receivables are considered to be 100% collectable. As such no allowance for doubtful accounts has been established.

3. Prepaid items

Certain payments made to vendors are for services applicable to future accounting periods.

4. Capital assets

Capital assets, which include equipment and vehicles are reported in the Statement of Net Assets column in the basic financial statements. Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$300, and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

NORTH OAKLAND TRANSPORTATION AUTHORITY OXFORD, MICHIGAN

Notes to the Financial Statements

Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Equipment	5
Vehicles	2-5

5. Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets. There were no long-term obligations at the end of the fiscal year.

6. Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary information

A budget for the General Fund is adopted, on a basis consistent with generally accepted accounting principles (GAAP), and is adopted on a category level consisting of operations and capital outlay.

Adoption and amendments of budgets used by the Authority are governed by Public Act 621. The governing body must approve the budget and amendments, including supplemental appropriations at the category level. The Authority's management can transfer appropriations between line items within a category without governing body approval. Encumbrance accounting is not utilized by the Authority.

B. Excess expenditures over appropriations

State statutes provide that a local unit shall not incur expenditures in excess of the amount appropriated.

NORTH OAKLAND TRANSPORTATION AUTHORITY OXFORD, MICHIGAN

Notes to the Financial Statements

During the year ended December 31, 2005, the Authority incurred expenditures in excess of the amounts appropriated for the General Fund by \$49,883.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Following is a reconciliation of deposit balances as of December 31, 2005:

	<u>Deposits</u>
Statement of Net Assets	
Cash	<u>\$ 165,058</u>

Cash and cash equivalents on the government-wide financial statements include \$50 of petty cash funds, not included above.

Statutory Authority

The Authority is authorized by the Board of Trustees and as governed by the State of Michigan limits and standards set forth in Michigan Public Act 55 of the Public Acts of 1982, as amended and Public Act 252 of 1988 to invest surplus funds in the following:

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- In banker's acceptances of United States banks.
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase, are rated as investment grade by at least one standard rating service.
- Mutual funds registered under the Investment Company Act of 1940 with the Authority to purchase only investment vehicles that are legal for direct investment by a public corporation.

NORTH OAKLAND TRANSPORTATION AUTHORITY OXFORD, MICHIGAN

Notes to the Financial Statements

- External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

The Authority's deposits are in accordance with statutory authority.

The Authority has no assets that are considered to be investments as of December 31, 2005.

Investment and deposit risk:

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the above list of authorized investments. The Authority's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. - State law limits investments to specific government securities, certificates of deposit and bank accounts with qualified institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The Authority's investment policy does not have specific limits in excess of state law on investment credit risk.

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned. State law does not require and the Authority does not have a policy for deposit custodial credit risk. As of year-end \$66,502 of the Authority's bank balance of \$166,502 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk - Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Authority does not have a policy for investment custodial credit risk.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The Authority's investment policy does not have specific limits in excess of state law on concentration of credit risk.

**NORTH OAKLAND TRANSPORTATION AUTHORITY
OXFORD, MICHIGAN**

Notes to the Financial Statements

B. Receivables and Deferred Revenue

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

At the end of the current fiscal year, *deferred revenue* reported in the governmental fund was as follows:

	<u>Unearned</u>
Prepaid membership fee	\$1,740

C. Capital Assets

Capital assets activity for the year ended December 31, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets being depreciated:				
Equipment	\$ 11,312	\$ 1,847	\$ -	\$ 13,159
Vehicles	<u>169,317</u>	<u>280,331</u>	<u>(9,250)</u>	<u>440,398</u>
Total capital assets being depreciated	<u>180,629</u>	<u>282,178</u>	<u>(9,250)</u>	<u>453,557</u>
Less accumulated depreciation:				
Equipment	(6,600)	(2,415)	-	(9,015)
Vehicles	<u>(92,464)</u>	<u>(71,041)</u>	<u>9,250</u>	<u>(154,255)</u>
Total accumulated depreciation	<u>(99,064)</u>	<u>(73,456)</u>	<u>9,250</u>	<u>(163,270)</u>
Governmental activities capital assets, net	<u>\$ 81,565</u>	<u>\$ 208,722</u>	<u>\$ -</u>	<u>\$ 290,287</u>

Depreciation expense was charged to the general fund totaling \$73,456.

**NORTH OAKLAND TRANSPORTATION AUTHORITY
OXFORD, MICHIGAN**

Notes to the Financial Statements

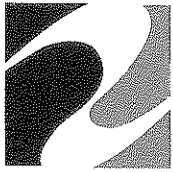
IV. OTHER INFORMATION

A. Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and distribution of assets; errors and omissions; injuries to employees and natural disasters. The Authority carries commercial insurance for comprehensive liability, motor vehicle physical damage, property and crime, and workers compensation coverage through various commercial insurers.

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***Internal Control
and Compliance***



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

May 11, 2006

Board of Trustees
North Oakland Transportation Authority

We have audited the financial statements of the governmental activities and the major fund of the *North Oakland Transportation Authority* (the "Authority") as of and for the year ended December 31, 2005, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated May 11, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the *Authority's* internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the *Authority's* financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and the Board of Trustees and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.